City of Las Vegas   Agenda Item No.: **35.**

AGENDA SUMMARY PAGE
CITY COUNCIL MEETING OF: DECEMBER 3, 2008

DEPARTMENT: CITY MANAGER'S OFFICE
DIRECTOR: DOUGLAS A. SELBY ☐ **Consent** ☒ **Discussion**

SUBJECT:
ADMINISTRATIVE:

Report and possible action on the update on progress of the Fundamental Service Review following direction given by the City Council at the October 6, 2008 Special City Council Meeting - All Wards

Fiscal Impact

☒ **No Impact** ☐ **Augmentation Required**
☐ **Budget Funds Available**
Amount:
Funding Source:
Dept./Division:

PURPOSE/BACKGROUND:
In response to declining general fund revenues, on March 31, 2008, City management was directed by Council members to complete a fundamental review of City operations, programs, and services that are neither tied to the City key priorities nor fundamental operations. City management provided a report on the findings of the Fundamental Service Review and the City Council provided direction at the October 6, 2008 Special City Council Meeting. Staff will report on progress made on the Council's direction.

RECOMMENDATION:
Receive presentations and direct staff accordingly

BACKUP DOCUMENTATION:
Submitted after meeting – PowerPoint Presentation by Staff

Motion made by OSCAR B. GOODMAN to Approve delaying action until 1/7/2009 with the following directions to staff:

A. City Manager Office to work closely with MARK VINCENT, Director of Finance and Business Services, to advise the Council on the proper figure as far as the slow-down on growth.

B. City Manager's Office to approach DEAN FLETCHER with the Firefighters' union to move up the contract negotiations.

C. City Manager's Office to have each Director provide the names and positions of the five percent of their staff who would be the first to be placed on leave or terminated as an employee of the City of Las Vegas.

D. The City Manager to speak with SHERIFF DOUG GILLESPIE and keep him advised as to what the City Council is doing in regards to the City's contribution to the Las Vegas Metropolitan Police Department.

E. All summary of recommended actions to be followed in accordance with the work of the City Manager.

Passed For: 7; Against: 0; Abstain: 0; Did Not Vote: 0; Excused: 0
RICKI Y. BARLOW, LOIS TARKANIAN, LARRY BROWN, OSCAR B. GOODMAN, GARY REESE, STEVE WOLFSON, STEVEN D. ROSS; (Against-None); (Abstain-None); (Did Not Vote-None); (Excused-None)

Minutes:
Using a PowerPoint Presentation, which was submitted for the record, CITY MANAGER DOUG SELBY and MARK VINCENT, Director of Finance and Business Services, gave a follow-up report on the Fundamental Service Review (FSR). CITY MANAGER SELBY recognized and thanked DR. BARBARA JACKSON for her efforts on the FSR. MAYOR GOODMAN described DR. JACKSON'S accomplishments during her tenure with the City and wished her the best in her retirement.

CITY MANAGER SELBY reviewed the Council's directions from the 10/6/2008 Budget Workshop. He stated that the FSR efficiency reductions had been implemented, resulting in savings of $4.1 million in vacant positionS and $1.9 million in non-labor costs. He noted an additional $20 million in non-labor reductions had been identified that would be removed by January 2009 and pointed out three departments that had been restructured.

MR. VINCENT detailed how $46.6 million had been cut from the City's baseline budget, noting the actions taken had resulted in an 8.4 percent reduction in costs and a 7.2 percent reduction in staff. Acknowledging that the City's Consolidated Tax (C-tax) comprised approximately 75 percent of the City's budget, MR. VINCENT pointed out that the City has had negative growth in this major revenue source over the past six quarters. COUNCILMAN WOLFSON emphasized that a significant portion of the City's revenue is not controlled by the City and stressed the dramatic drop in the City's revenues. MR. VINCENT added that any economic recovery would not reach the earlier double-digit-growth rates the City had enjoyed.

Noting that property taxes comprise the remainder of the City's revenue, MR. VINCENT stated that the continued drop in housing prices and the ongoing foreclosures and bankruptcies in both residential and commercial properties would contribute to reductions in property tax revenues.

MR. VINCENT also pointed out that the property tax cap was helping delay more drastic declines in property tax revenue, explaining that further declines would be felt in Fiscal Years 2010 and 2011.

Explaining the Baseline Model slide, MR. VINCENT stated the graph depicted the City's General Fund (GF) Reserves if no action is taken to balance the budget. He clarified that the model did not reflect any budget cuts and would be updated if the City's revenues continued to drop. He explained that this model indicated that the City would not be able to maintain a ten percent General Fund balance. He stressed that a negative budget was not an option as that would place the City in a bankrupt situation. MR. VINCENT noted that in a bankruptcy situation, the City would ask the court for relief from debt and contractual obligations. He emphasized the importance of addressing the downward trend of the City's revenues and stated further efforts to reduce the City's budget were needed.

MR. VINCENT displayed a graph, which depicted the City's GF balance if a one percent across-the-board wage and/or benefits reduction was implemented in addition to the current budget cuts. He admitted that the City was still working with the collective bargaining units, but stressed that in this model, the City would be able to maintain its ten percent GF balance.

In response to questions by the Council, MR. VINCENT clarified that the salary ranges were different for different employees and stated that 93 percent of City employees receive some form of salary increase through a cost of living allowance (COLA), a step or merit increase, or both. He explained that the budget savings of reducing those salary increases by one percent would grow and compound over time. He noted that taking this action would prevent deeper program cuts and would prevent the need to reduce other employee benefits.

COUNCILMAN BROWN pointed out that salary increases were part of negotiated benefits that the City was contractually obligated to fulfill and MR. VINCENT agreed.

MR. VINCENT informed COUNCILWOMAN TARKANIAN that the City is facing a $30 million gap between its revenues and expenses each year and the City's budget cuts so far were not sufficient to fill that gap. He explained that the 4.7 percent increase in employee wages was an average based on actual wages collected by employees.

CITY MANAGER SELBY stated that the City's only option for addressing labor costs under the labor contract is to reduce workforce and cut programs and services. He stressed that this discussion was based on preserving the City's workforce and maintaining services during the economic downturn.

CITY MANAGER SELBY informed COUNCILMAN BARLOW that the City had chosen to reduce the workforce at the Department of Building and Safety, which operated through an Enterprise Fund. He noted that 31 positions had been eliminated in response to the drop in revenues and work and in accordance with the collective bargaining agreement. He explained that further reductions in force would be needed if the City could not balance its budget.

In response to COUNCILMAN WOLFSON'S question, CITY MANAGER SELBY stated the City was very efficient, but some programs needed to be examined and possibly eliminated. MR. VINCENT agreed and noted further budget cuts would lead to programmatic issues.

MR. VINCENT added that the City should have a plan in place in the event the revenue shortfall continued or worsened and suggested that the budget be reviewed on a quarterly basis in response to the economy's current volatility. He also described several triggers that would require corrective action, including possible revision of the City's Action Plan and budget model.

MR. VINCENT noted that staff was moving forward on the Revenue Stabilization Fund and that the 12 percent Fund Balance Policy had been suspended, as directed by the Council. He gave an update on the phased implementation of fee increases, noting that staff was working on a balanced approach that would not unfairly burden a specific industry. Regarding the delay of Capital Improvement Projects (CIP), MR. VINCENT stated the need for future fire stations was being examined in response to the City's slowing population growth and delays in new developments. He also noted that staff had managed to accommodate the maintenance needs of new CIP projects with existing staff, saving approximately $20 million over five years.

CITY MANAGER SELBY pointed out that labor is 75 percent of the City's operating cost and stated regular discussions were ongoing with the various labor units regarding reducing the growth rate of the City's labor costs. He stated the Las Vegas City Employees' Association (LVCEA) had expressed concern with equity and had requested that the other bargaining units share equally in addressing labor costs. He noted that all labor units were performing their due diligence and verifying the City's financial situation. He commented that the Las Vegas Firefighters (IAFF) would enter labor negotiations in 2009 and did not want to open the negotiations early.

CITY MANAGER SELBY informed COUNCILMAN WOLFSON that, historically, the City's labor contracts had increased in value. He stressed that the City and labor units were in unfamiliar territory with the City facing its worst financial position during his tenure.

COUNCILWOMAN TARKANIAN pointed out the LVCEA'S willingness to work with the City and asked CITY MANAGER SELBY if the other labor units had come forward. CITY MANAGER SELBY stated the labor units' independent report on the City's financial situation should be completed by the end of December and the labor units would be ready to respond to the City after reviewing it.

CITY MANAGER SELBY stated that the City should be prepared for the possibility that discussions with the labor units might not be completely successful. In that event, he recommended that only critical vacant positions be filled and that all non-critical vacant positions be eliminated. He suggested implementing a voluntary separation incentive program that would allow employees to retire early or voluntarily separate from the City, acknowledging that the program details had not yet been determined.

CITY MANAGER SELBY clarified for COUNCILMAN WOLFSON that the voluntary separation incentive program would be targeted, which would allow the City to preserve critical positions and achieve savings by eliminating non-critical positions. MR. VINCENT stated any voluntary separations would help the City achieve a balanced budget and would also provide funding for the program's incentives. He informed COUNCILMAN WOLFSON that the program would be open to all interested employees.

As part of the Fiscal Year 2010 (FY10) Action Plan, CITY MANAGER SELBY recommended that any negotiated labor reductions be integrated into the FY10 budget and that the City's funding of the Las Vegas Metropolitan Police Department (Metro) budget be reviewed. He suggested reducing the Metro funding to match the City's budget. He stated the City was in current discussions with SHERIFF DOUG GILLESPIE, who was working to develop a lean budget.

CITY MANAGER SELBY also stated that the City should be prepared to implement layoffs after March 1, 2009, noting that 37 positions have been already been identified as part of the FSR. He also suggested implementing the FSR recommendation that addressed organizational restructuring and would impact full-time employees. He acknowledged that these recommendations would result in reductions in force. He concluded by noting that further action would be required if these budget cuts failed to balance the budget.

CITY MANAGER SELBY informed COUNCILMAN BARLOW that May 2009 was given as a target date because the City's fiscal year ends in June. He explained that staff would have a clear picture of the City's financial position by that time and the City would have to be prepared to act. MR. VINCENT stated implementation of the FY10 Action Plan would result in the elimination of 150 positions, including the 37 positions mentioned by CITY MANAGER SELBY, and a balanced budget by Fiscal Year 2014. CITY MANAGER SELBY stated the specific positions had not yet been identified, but those positions would be discussed with the Council if the need for layoffs arose.

COUNCILMAN WOLFSON observed that the City is not required by law to have a balanced budget, while the State of Nevada is required by law to balance its budget. MR. VINCENT explained that the State controls the City's budget by requiring its budget be approved by the Department of Taxation. He further clarified that an unbalanced budget would require an explanation and a plan outlining how the budget would be balanced in the future.

COUNCILMAN WOLFSON pointed out that labor cuts are the only way for the City to achieve a balanced budget if the current budget cuts and the ongoing labor negotiations are unsuccessful at reducing the City's budget deficit. MR. VINCENT concurred.

CITY MANAGER SELBY summarized the recommended actions and recommended approval.

COUNCILMAN REESE expressed his appreciation of staff's work on the report, but noted that GOVERNOR JIM GIBBONS had called a special budget session. He stated that actions by the state legislature would impact the City and its budget. He stressed his reluctance to lay off any employees and expressed his disappointment in the slow response of the labor units.

COUNCILMAN BROWN thanked the LVCEA for working with the City to be part of the solution. He encouraged the labor units and the City to avoid taking an adversarial approach to the City's budget deficit and expressed his hope that all the labor units would help the City arrive at a resolution. He stated he would not support hurting existing contractual obligations, but suggested that entitlements for future employees be changed.

COUNCILMAN WOLFSON stated that the request for more time by the labor units for due diligence was reasonable and stated he looked forward to the LVCEA's report. He stressed that the City and the LVCEA have common goals, and he anticipated an excellent working relationship between the parties as they addressed the City's budget.

COUNCILWOMAN TARKANIAN thanked the LVCEA for working with the City and concurred with COUNCILMAN BROWN that the economy that had allowed the City to agree to lucrative labor contracts had changed.

MAYOR GOODMAN emphasized that there were no quick fixes to the City's budget deficit. He stressed that time is of the essence and encouraged the labor units to work with the City. He also admitted that the City must be prepared for layoffs if discussions with the labor units were unsuccessful.

MAYOR GOODMAN directed the City Manager's Office to work with the Department of Finance and Business Services to establish the City's financial position. He encouraged staff work with the IAFF to move up contract negotiations. He also requested that each director develop a plan to reduce their department's current staffing levels by five percent and provide the names of the affected employees to the Council. He directed CITY MANAGER SELBY to continue working with SHERIFF GILLESPIE regarding the Metro budget. He directed staff to implement CITY MANAGER SELBY'S recommendations.